

ILLINOIS COMMERCE COMMISSION
DOCKET NOS. 02-0798/03-0008/03-0009 (Consolidated)

REBUTTAL TESTIMONY
OF
MARK C. LINDGREN

Submitted On Behalf
Of
CENTRAL ILLINOIS PUBLIC SERVICE COMPANY
d/b/a AmerenCIPS
and
UNION ELECTRIC COMPANY
d/b/a AmerenUE

May, 2003

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Q. Please state your name and business address.

A. My name is Mark C. Lindgren. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom and in what capacity are you employed?

A. I am employed by Ameren Services Company as Manager, Total Rewards.

Q. Please describe Ameren Services Company.

A. Ameren Services Company (“Ameren Services”) is a subsidiary of Ameren Corporation which provides various administrative and technical support services for its parent and other subsidiaries including Union Electric Company doing business as AmerenUE (“AmerenUE”) and Central Illinois Public Service Company doing business as AmerenCIPS (“AmerenCIPS”). AmerenUE and AmerenCIPS are sometimes collectively referred to herein as “Ameren” or the “Company.” Ameren

24 Services was formed as a result of the December 1997 merger of Union Electric
25 Company and CIPSCO Incorporated.

26 **Q. Please describe your education.**

27 **A.** I have a Master's of Business Administration from the University of
28 Illinois-Springfield, a Bachelor's Degree in Business with a double major of Marketing
29 and Administrative Management, and minor in Industrial Technology from Eastern
30 Illinois.

31 **Q. Please describe your qualifications.**

32 **A.** I have worked in the area of compensation for the past nine years and have
33 managed the compensation function for two different companies. During that time I have
34 worked with various types of pay systems in both design and administrative capacities in
35 two different industries. I currently serve on the American Gas Association and Edison
36 Electric Institute's Compensation and Benefits Steering Committee.

37 **Q. Please describe your duties and responsibilities as Manager, Total**
38 **Rewards.**

39 **A.** My duties and responsibilities include the management of all aspects of
40 the corporate compensation and benefits departments. My primary responsibilities for
41 the compensation department include the design, implementation and administration of
42 all areas of compensation involving base pay, incentives, budget setting/allocation,
43 compliance, job evaluation/design, communications, consulting with company leaders,
44 development of related company policies, administration of the annual performance
45 appraisal program, and various other human resource related programs/projects. My
46 primary responsibilities for the benefits department include the design, implementation

47 and administration of all areas of benefits involving health and welfare, pension, and
48 other benefits for all active and retired employees.

49 **Q. What is the purpose of your testimony?**

50 **A.** The purpose of my testimony is to address why it is improper to deny the
51 recovery of costs associated with the Company's Incentive Compensation Program.
52 Specifically, I will provide testimony showing that: (1) the program contains clearly
53 ascertainable goals to improve performance, to the direct benefit of our Illinois gas
54 customers; (2) the program uses "stretch goals" that reward employees for performance at
55 levels beyond their ordinary duties; (3) the program results in clearly visible
56 achievements; and (4) the Company's Incentive Compensation Program is needed to
57 provide our employees with compensation levels that meet industry average levels. I will
58 also explain the relationship between the plan and the Company's earnings goals.

59 **Q. What is Ameren's compensation philosophy?**

60 **A.** Compensation plays an integral role in the success of the business strategy
61 and the employment relationship. It provides the connection between individual efforts
62 and the remuneration from the organization for those efforts. The clear linkage of the
63 business strategy to the compensation strategy provides the tactical basis for all
64 compensation programs. Ameren views pay and benefits from a total rewards
65 perspective, rather than as individual components.

66 Paying for performance is a philosophy of Ameren's pay system. We
67 believe the performance of the organization is determined by the collective performance
68 of all employees. Therefore, in 1998 we began to implement a new performance
69 management process called the performance scorecard. The process gave management

70 an enhanced ability to align various functions within the organization to the overall
71 Company strategy. The process includes planning, executing, measuring and rewarding
72 for objectives that are balanced between employee, process, customer service and
73 financial measures. The implementation of this process gave us the ability to modify the
74 incentive plans. Some recent modifications were designed to improve the “line of sight,”
75 which is the ability of employees to see the direct link from their performance to the
76 performance of their function and then to the overall Company performance. Depending
77 on the job in the organization, we have primarily modified what portion of an employee’s
78 incentive is linked to individual, business line, or Company performance.

79 **Q. How does Ameren determine what pay and benefits each employee**
80 **will receive?**

81 **A.** The objective is to provide a total reward package that attracts, retains and
82 motivates employees at a level commensurate with other employers that Ameren
83 competes with, following these guiding principles:

- 84 • The market is used to determine competitive pay levels;
- 85 • The total compensation “mix” is determined by the scope,
86 responsibility and impact of positions (“mix” is the amount of
87 incentive compensation relative to fixed base pay);
- 88 • Individual and company performance, which are mutually dependent,
89 are the basis for compensation (pay for performance);
- 90 • The unique needs of business lines and subsidiaries must be met if
91 they are supported by the market;

- 92 • Variable compensation is driven by business results and performance
- 93 measures;
- 94 • Compensation programs integrate with and complement performance
- 95 management and employee development; and,
- 96 • Compensation programs are communicated and understood by all
- 97 levels of the organization.

98 **Q. How does Ameren measure each employee's individual performance?**

99 **A.**Ameren measures each individual's performance as part of a formal

100 performance appraisal process that includes goal setting, coaching and feedback,

101 performance measurement and rewards (e.g., incentive pay). This is an annual process

102 that is required for all management employees. The instrument used to measure each

103 employee's performance is the performance appraisal form. This form has two primary

104 sections. The first section measures performance against corporate performance

105 dimensions. These measures are consistent for all employees and include

106 communication, customer focus, decision making, flexibility, initiative, teamwork and

107 leadership. The second section measures the performance of predefined goals that are

108 established and agreed to by each employee and his or her supervisor. The objectives are

109 typically an employee's three to five most important responsibilities that support the

110 overall function objectives.

111 **Q. Please describe the incentive plans which were in effect in 2002.**

112 **A. In 2002 we had three separate plans, each tailored to a different employee**
113 **group, and specifically tailored to that group's general responsibilities within the**
114 **Company.**

115 1. The first plan was the Ameren Incentive Plan: All regular full or
116 part-time bargaining unit employees at AmerenUE, Ameren Services, and
117 AmerenCIPS were eligible to participate in this plan. The 2002 plan was funded
118 based on Ameren Corporation's Earnings Per Share ("EPS") performance, then
119 75% of the employee's award opportunity was based on the performance of that
120 employee's function (depending on each employee's respective function's
121 performance indicators). The remaining 25% was based on Company
122 performance (as measured by EPS).

123 This plan was designed to encourage the employees in this group
124 to focus on specific, clearly ascertainable goals to improve the performance of
125 their function.

126 2. The Ameren Management Incentive Plan applied to all
127 non-executive management employees at AmerenUE, Ameren Services, and
128 AmerenCIPS. The 2002 plan was funded based on Ameren Corporation's EPS
129 performance and had two performance measures - Business Line performance and
130 Individual performance. Examples of the specific goals for the function are listed
131 below in my discussion of the "performance indicators" for the Energy Delivery
132 business line. To the extent that each function's goals were met, the management
133 employees who were responsible for managing the departments in those functions

134 were awarded accordingly. To the extent that the functional goals were met, 50%
135 of the award opportunity was then available. The availability of the remaining
136 50% was based on the employee's individual performance as assessed by the
137 employee's supervisor.

138 3. The Ameren Executive Incentive Plan applied to members of the
139 Ameren Leadership Team, which are higher level executives of the Company. In
140 2002, the plan was funded when Ameren Corporation achieved pre-defined levels
141 of earnings. Once funded, 50% of the award opportunity was based on the
142 executive's individual performance (as determined by his or her superior and
143 reflecting the department and/or function's performance). The remaining 50%
144 was awarded based on Company performance.

145 **Q. What role do the incentive compensation plans play in the overall**
146 **compensation package offered to Ameren employees?**

147 **A.** Ameren views incentive compensation as part of an employee's total
148 market competitive pay level. Our compensation plan is designed so that the base salary,
149 plus the "target" incentive compensation brings Ameren employees near the median of
150 compensation levels for comparable utility positions. Therefore, a portion of all
151 employees' compensation is contingent on performance. As discussed in greater detail in
152 the testimony of Mr. David Cross, of Mercer Human Resource Consulting, the targeted
153 incentive is part of the total compensation package and is necessary to make it
154 competitive, but it is contingent on performance, so it is not guaranteed.

155 **Q. ICC Staff witness Burma Jones and People of the State of**
156 **Illinois/Attorney General witness David J. Effron have both recommended the**

157 **disallowance of AmerenCIPS and AmerenUE incentive compensation expense due**
158 **to the use of EPS as a funding mechanism of the plan. What role does EPS play in**
159 **the incentive plans?**

160 **A.** For each plan, the EPS is used as an indicator the Company, as a whole,
161 has achieved a certain level of performance that will allow a portion of the incentive
162 compensation package to become available to employees if and only if the more specific
163 function, department, and individual performance goals have also been met. The
164 Company can only justify incentive payouts to individuals if the Company's overall
165 financial health so warrants.

166 Clearly, the most significant influence on the payment of incentives is the
167 employee's individual and functional performance, which directly focuses on the
168 interests of and benefits to Illinois customers. To say it another way, the EPS
169 performance level determines how much money will be available for incentives, but each
170 employee's individual and functional performance are the key drivers which determine
171 what is actually paid.

172 **Q. Do Ameren's incentive compensation plans support Illinois**
173 **customers' interests?**

174 **A.** Yes, they do. The Ameren employees who are directly involved in
175 providing gas services to Illinois customers are given financial incentives through these
176 plans to provide a safer, more reliable and lower cost service. These employees include
177 gas procurement workers, gas servicemen, customer service workers, engineers and
178 support staff. Mr. Effron acknowledged that if the primary basis for awarding incentive
179 compensation were safety, reliability, or cost control, then it would be reasonable to

180 include such incentive compensation expenses in the cost of service. (AG Exhibit 1.0,
181 p. 18, lines 17-19.) In the case of Ameren's Incentive Compensation Plan, there is no
182 question that these factors directly determine how much money will be paid to each
183 employee.

184 **Q. Please give some examples that illustrate how the plan design has**
185 **benefited Illinois customers.**

186 **A.** The largest employee group in AmerenCIPS and AmerenUE is the Energy
187 Delivery business line. Following is a description of the actual performance indicators
188 used for 2002 and their respective performance levels.

189 **Energy Delivery.** This function makes up 98% of the employees who do
190 work for AmerenCIPS and AmerenUE. The primary activities of this function are to
191 provide reliable, safe and high-quality electric and gas distribution to Ameren customers.
192 For 2002, the performance indicators applicable to Energy Delivery employees were:

193 1) **The percentage of bills mailed on time.** This measure was
194 implemented to assure our customer billing systems were functioning at efficient
195 levels and customers received their bills on time. It has resulted in a significant
196 improvement in the Company's billing performance. In 2000, Ameren required
197 98.5% of its bills to be mailed out on time in order for Energy Delivery
198 employees to receive the lowest incentive payout. However in that year, due to
199 employee focus on this performance measure, Ameren exceeded the target and
200 mailed 99.2% of its bills on time. In 2002, Ameren set a minimum requirement of
201 99% for this measure of performance and achieved 99.7% compliance. The goals
202 set with regard to this one metric were clearly "stretch" measures which were not

easily achieved. In 2002, only about 5,400 of the 1.8 million bills were sent even one day late. This improved timeliness in billing provided direct and quantifiable benefits to Ameren's customers.

2) Customer satisfaction. This measure uses customer satisfaction ratings from two independent rating surveys to assure Ameren customers are receiving a high quality of service. One half of this measure relates to customer contact and satisfaction with Ameren's customer call center, and the other half of this measure relates to customer satisfaction with our field employees and work that was performed on the customer's premises. In 2000, Ameren achieved a satisfaction level of 80% in these areas. In 2002, Ameren raised this satisfaction level to 82.7%--an improvement in satisfaction for thousands of customers.

3) Net Income of regulated business. This measure indicates the fiscal management of the unit by comparing actual results to budgeted expectations. Cost control was critical to the success of this measure since the opportunities for revenue enhancement were limited during 2002. Ameren has been successful in controlling its costs, and, thereby, providing direct benefits to customers.

4) The percentage of customers experiencing three or fewer extended outages per year. This measure assures we are delivering reliable service to customers. In 2000, this measure required four or fewer outages, and Ameren achieved a rating of 87%. The Company refined this measure in 2002 to require three or fewer extended outages. The incentive minimum target was set at 86% and Ameren achieved 90.2%--a substantial improvement. Again, this incentive

226 provides measurable improvement to system reliability, which directly benefits
227 customers.

228 5) Employee safety index. This measure records all safety incidents
229 and reinforces Ameren's commitment to safety. A commitment to safety
230 ultimately results in lower costs for the Company and its customers due to fewer
231 claims and increased productive time for workers. In 2000, the Company's
232 Energy Delivery business line set a target of 105 lost workday away cases and
233 recorded 110 lost workday away cases. Over time, more emphasis has been
234 placed on this measure. In 2002, a target of 75 lost workday away cases was the
235 goal, and the group achieved 51 lost workday away days. This in turn resulted in
236 a 48% reduction in indemnity claims over the three-year period. Specifically
237 1,125 indemnity claims in 2000 were reduced to 582 claims in 2002. Over the
238 same period, the frequency of indemnity claims was reduced by 34%. Temporary
239 total disability payments were reduced by 38%--from \$1.3 million in 2000 to
240 \$.8 million in 2002. These are direct, measurable benefits that flow from the
241 Company's incentive compensation plan, and are reflected in the form of lower
242 rates for customers.

243 As a result of Ameren's improved performance in these and other areas,
244 Ameren has been recognized as an industry leader in customer satisfaction. In 2002, in a
245 customer satisfaction survey conducted by the University of Michigan Business School,
246 Ameren was ranked fifth among gas and electric utilities in the United States. Also in
247 2002, Ameren was rated in the top four utilities in the Midwest for residential customer
248 service in a survey conducted by J.D. Power and Associates. Again, these favorable

249 survey results are direct outcomes of the incentives provided to the Company's
250 employees by the incentive compensation plans.

251 **Q. You also mentioned earlier that the Company's Incentive**
252 **Compensation Plans are needed to provide employees with compensation levels that**
253 **meet industry average levels. Does this mean that Ameren will continue to use**
254 **incentive plans?**

255 **A.** Yes. As discussed in detail by Mr. Cross, the portion of the Company's
256 overall compensation package that is tied to incentives is a necessary part of the total
257 package necessary in order to make it competitive. He indicated that if we did not have
258 the incentive package, our ability to compete for qualified employees would be harmed.
259 The fact that we have made part of that overall package payable only if certain goals are
260 met should be endorsed. We have seen positive results from the use of incentive plans
261 and will continue to use them.

262 **Q. Ms. Jones suggests that Ameren reserved the right to revise, modify,**
263 **continue or discontinue the plans as part justification for her disallowance. Do you**
264 **have a response?**

265 **A.** Yes. This language is in almost all of our pay and benefits plans because
266 it is a common and recommended practice from a legal perspective. It is our intention to
267 continue the use of incentive plans in future years.

268 **Q. Does this conclude your rebuttal testimony?**

269 **A.** Yes, it does.